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Via ECFS – Notice of Ex Parte Communications

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: *Connect America Fund et al.*, WC Docket Nos. 10-90, 14-58, 07-135, and CC Docket No. 01-92

Dear Ms. Dortch:

On November 14, 2018, Ken Pfister of Great Plains Communications, Wendy Thompson Fast of Consolidated Companies (collectively, Nebraska A-CAM Companies), and I met separately with Nick Degani (in person) and Preston Wise (by telephone) of the Office of Chairman Ajit Pai; Arielle Roth of the Office of Commissioner Michael O'Rielly; and Sue McNeil, Alex Minard, Suzanne Yelen, Ted Burmeister, and Talmage Cox of the Wireline Competition Bureau (Bureau) regarding the pending Notice of Proposed Rulemaking in the above-referenced proceeding.[1]

During the meeting, we discussed the deployment obligations associated with a voluntary offer of additional funding up to $200/month per location for existing A-CAM recipients. We focused on the impact on low-density A-CAM companies, as previously defined by the Commission in the *2016 Rate-of-Return Reform Order* (less than 5 locations per square mile), of potentially increasing the 25/3 Mbps deployment obligation. The Nebraska A-CAM Companies noted that there are 72 low-density A-CAM companies in 23 states across the country. Even with an increase in support to $200/location, A-CAM support does not cover the full cost of serving these low-density areas. Averaging across the nation, on an annual basis, A-CAM support at $200/location provides cost recovery for only 55 percent of model-determined costs for low-density companies.

The Nebraska A-CAM Companies explained that in evaluating whether to accept a potential new offer of support up to $200/location with additional deployment obligations, A-CAM companies will evaluate whether the incremental increase in support is sufficient to cover the incremental increase in capital investment (capex) to build the network capable of meeting the new service obligations. In particular, existing A-CAM companies will consider the level of support, the number of years of support, and the specific performance obligations to

[1] *Connect America Fund et al.*, Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, WC Docket No. 10-90 *et al.*, FCC 18-29 (rel. Mar. 23, 2018).

determine whether to accept a new offer.

For low-density companies, a requirement to offer 25/3 Mbps, generally speaking, means that companies must deploy fiber-to-the-home. Very high-bit-rate digital subscriber line (VDSL) is generally not an option for low-density companies because there are too few locations per node for VDSL to make economic sense. Many low-density companies therefore would have to deploy significantly more fiber – an asset with a 25-year economic life – to meet an increased 25/3 Mbps deployment obligation.

The Nebraska A-CAM Companies emphasized the deployment obligations must be appropriately sized to match the amount of support provided, taking into account density differences among companies. They proposed a methodology to adjust the existing deployment obligations for A-CAM recipients, based on estimated capex from the A-CAM model. They believe this is a reasonable approach, noting that their per-location actual capex cost to deploy fiber-to-the-home, based on an analysis of a sample of past and ongoing construction projects in their respective companies, is close to the per-location capex as determined using the A-CAM model.

Because users of the model do not have access to detailed capex data in the model, the Nebraska A-CAM Companies estimated the weighted average capex per location for all low-density companies based on annual costs in the A-CAM model, as follows:

$$\begin{aligned} &Weighted\ Average\ Cost\ per\ Location \\ &\quad = \left(Annual\ Cost_{Fully\ Funded\ CB} \times CapEx\ \% \times Weighted\ Average\ Economic\ Life\right) \\ &\quad \div Locations_{Fully\ Funded} \end{aligned}$$

Using the above equation, the weighted average capex per location for low-density companies as a group was estimated to be $19,894 per location.

If the Commission were to provide an increase in A-CAM support up to $200/location, starting in 2019, and provide support at that level for a full ten years (i.e. until the end of 2028, which would be an additional two years after the conclusion of the current term for A-CAM), a reasonable revised deployment obligation for low-density companies would be to offer 25/3 Mbps service to 50 percent of the count of their fully funded locations. Fifty percent represents the break-even point for low-density companies as a group, where the incremental additional support is sufficient to cover the incremental increase in capex needed to meet the new deployment obligation. If the required percentage were significantly higher than this, it would not be economically viable for many low-density companies to accept this new obligation. Given the overall increase in the count of fully funded locations, an increase to 50 percent would more than double the required 25/3 Mbps deployment obligation for low-density companies, compared to their current obligations.

The Nebraska A-CAM Companies emphasized that they want to build networks that are capable of offering their customers higher speeds in the future as consumer demand and new applications warrant. For low-density companies, a requirement to offer 25/3 Mbps to an increased number of locations essentially would make 25/3 Mbps the floor, not the ceiling, for the services they would be able to offer to those locations using fiber-to-the-home.

The PowerPoint presentation entitled "Deployment Obligations Should Recognize Cost Differences Among Current A-CAM Companies" was distributed and discussed at all three meetings. In addition, the network diagram "Example of Fiber-Fed Node that Would be Eliminated if 25/3 Were Required" was distributed and discussed in the meeting with the Office of the Chairman and the Bureau to explain what facilities could be repurposed when an exchange currently engineered to offer 10/1 Mbps is upgraded to 25/3 Mbps, and what costs

(such as the initial engineering for the 10/1 Mbps network and bringing electricity to the node) are sunk.

Please do not hesitate to contact the undersigned if there are questions regarding this submission.

Respectfully submitted,

/s/

Carol E. Mattey
Principal
Mattey Consulting, LLC

Attachments

Deployment Obligations Should Recognize Cost Differences Among Current A-CAM Companies
Example of Fiber-Fed Node that Would be Eliminated if 25/3 Were Required

cc: Nick Degani
Preston Wise
Arielle Roth
Sue McNeil
Alex Minard
Suzanne Yelen
Ted Burmeister
Talmage Cox